Testimony

Of the

National Cattlemen's Beef Association

To the

House Agriculture Committee

The Honorable Larry Combest, Chairman

Presented by

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July 17, 2001

Producer-directed and consumer-focused, the National Cattlemen's Beef Association is the trade association of America's cattle farmers and ranchers, and the marketing organization for the largest segment of the nation's food and fiber industry.

Introduction
Chairman Combest, Ranking Member Stenholm and the Members of the House Agriculture Committee, my name is G. Chandler Keys III, I am the Vice President of Public Policy for the National Cattlemen's Beef Association (NCBA). I appreciate this opportunity to address the Committee today and to represent the views of nearly 250,000 members of NCBA and our state affiliates nationwide.

The draft concept paper released by the committee seems to be strong in a number of areas of particular interest to NCBA. We realize that there will be a great deal of discussion in the coming days to determine the final form of this legislation. I hope that my testimony will help to bring attention to the fact that even though our industry does not receive direct income supports or market assistance payments, we are very much impacted by the program areas of this legislation.

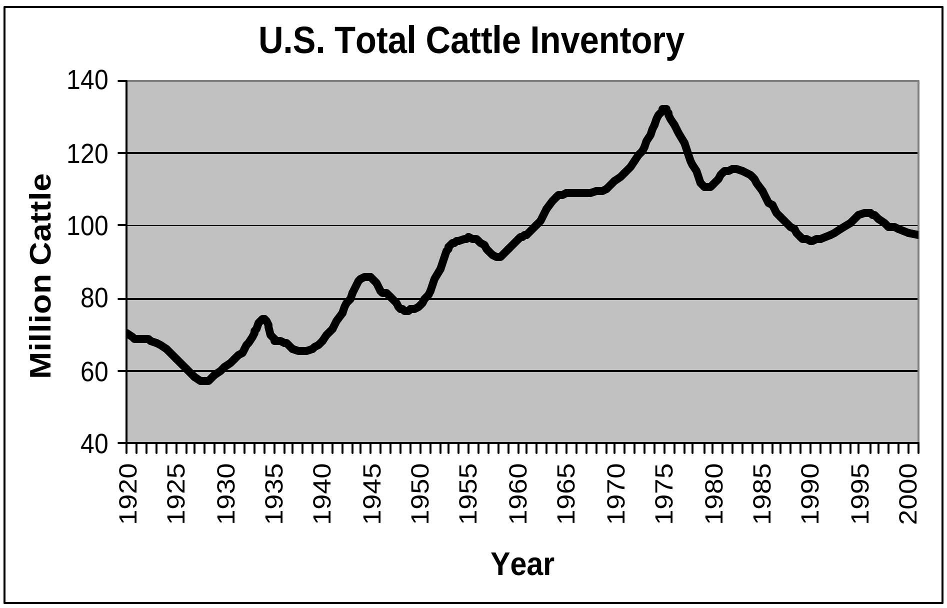
Industry Background
The sale of cattle and calves is the single largest contributor to farm receipts. Livestock sales account for nearly half of all farm receipts and sales of cattle and calves account for 40 percent of all livestock sales. Livestock consume more than 3 out of every 4 bushels of the three major feed grains (corn, sorghum and barley) used domestically. In addition, the beef industry consumes large quantities of wheat, oats and an assortment of feed ingredients including co-products from wheat milling, flour milling and ethanol production. Cattle in feedlots account for nearly one-forth of the total grain consuming animal units and all beef cattle account for nearly 30 percent. If dairy cows are included, all cattle make up 40 percent of all total grain consuming animal units.

Because of the versatility of the ruminant animal, the beef industry is also able to take advantage of feed ingredients such as screenings and grain cleanings that other segments of agriculture are unable to utilize. Of the $190 - $200 billion dollars in annual farm income from commodity sales during the past decade, the beef industry has contributed $35 - $40 billion annually. Plus, as indicated earlier, beef cattle consume nearly 30 percent of the $20 - $27 billion of feed crops sold annually. Clearly, the livestock industry is a larger component of farm income than these programs we are here to discuss—we see the relationship between the cattle industry and the feed grain industry as mutually beneficial and interdependent.

As the largest segment of agriculture, the beef industry is concerned about government programs that inadvertently affect the price of feed grains or result in distorted market signals. These actions can have major impacts on the economic well being of the beef industry. Every cent of artificial increase in prices paid for grain, have a direct and corresponding impact on our industry. We do not support direct price or income supports for the beef industry. We hope that members of the Committee remind themselves that feedgrain support programs that manipulate or artificially influence the price of grain will also affect each and every cattlemen in this country.

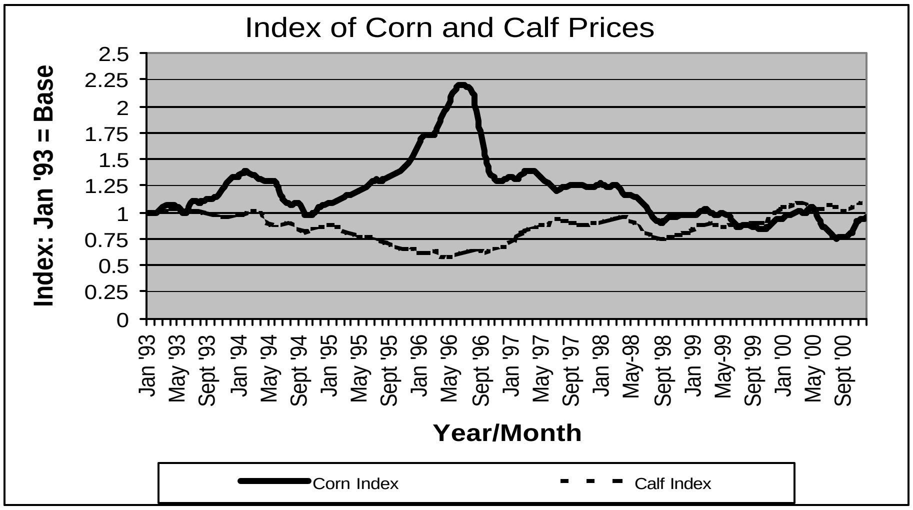
A general rule of thumb states that calf prices decline by $1 to $1.20 per hundredweight for every 10-cent per bushel increase in the corn price and feeder cattle prices decline by about 70 cents for every 10-cent per bushel increase in corn price. Some cattle feeders have indicated that this impact is conservative and the impact on calf prices is closer to $1.50/cwt. for every 10-cent per bushel corn price increase. Ranchers are willing to accept these price impacts when they come from changes in supply and demand, but not from acts of Congress that distort grain prices and pit one industry group against another.

Our members regularly remind us that the market is powerful. Most participants in the beef industry understand its power and embrace it. We are all familiar with the beef cycle--its ups and its downs. Sometimes it is painful, but it works unless false forces alter its ever-balancing relationship. When prices are good, as they are now, producers hold heifers back and increase their breeding herd to produce more calves. In time, the industry begins producing too many calves, and more beef is going to market than can be sold profitably and prices begin to fall. As this occurs, producers cull more cows, sell more heifers and reduce herd size -- eventually reducing supply until prices begin to rise. And the cycle starts all over again.



As shown in the graph, the length and duration of this cycle may change, but on average it lasts about 10 years and it has been in place since at least the 1920s. Production peaks tend to be in the middle of each decade with cyclical low production near the beginning of each decade. The cattle cycle occurs because individuals make independent decisions that collectively impact the entire the market, and over time, these individual actions have an aggregate effect. The beef industry does not want these market forces to be distorted by government price floors or income supports.

In 1996, when corn was over $5 dollars a bushel and calves were trading at a discount to fed cattle, we had a lot of people lining up wanting to help us with federal dollars. Our industry said NO. Majority opinion in the beef industry was that the market would take care of our problems and it has. Today, the beef industry is one of the few bright spots in American agriculture. We believe prices are strong because we let the marketplace work and have focused on building demand for beef.



We continue to work on improvements to the infrastructure that keeps our industry strong. These advancements focus on agricultural research, a science-based approach to regulations and inspection, market development, product promotion, and trade. We do not spend time or political capital trying to enact programs to deal with natural market downturns that in the end would only encourage over-production and extend the downside life of the cattle cycle. The market is truly a powerful force and is the beef industry's greatest strength.

Federal Farm Policy

The “Draft Farm Bill Concept” paper presented to us last week gave us our first insight into the likely basis of our nations next Farm Bill. As stated many times before this Committee, NCBA has been and will continue to be focused on ensuring that US farm policy does not benefit one part of agriculture at the expense of another. Furthermore, NCBA can not consent to US farm policy that is financed out of the pockets of the beef industry.

Though the 1996 bill has been much maligned in recent years, NCBA continues to support programs that do not take land out of production or remove grain from the marketplace. The concept of providing maximum flexibility is not contrary to NCBA policy. In short the current proposal seeks to continue and expand eligibility for AMTA payments, continue current loan rates, expand eligibility for marketing loans and introduce counter cyclical mechanisms for support. NCBA's position on these issues is simple. As long as the loan program is focused on marketing loans and causes no harm to other segments of agriculture, we are indifferent to many of the participation details of the programs.

We must continue to express concerns about the effect of these payments on trade with our partners around the world. Successful and meaningful trade agreements are essential to our future success. We hope that the Committee would carefully consider any and all possible means to improve and enhance the trading environment for US beef producers.

You will likely hear testimony in the coming days in support of moving back to mandatory set-asides, acreage reduction programs and production controls. If these proposals operate as intended, farmers would be induced to take land out of production, decreasing the supply of grain in the marketplace resulting in higher prices. Higher prices would be good for farmers and the US Treasury, but these higher prices would be funded out of the pockets of livestock producers. Ultimately, grain producers in other countries just increase production and the US gives up market share. This proposal would amount to a transfer of income and risk from one sector of agriculture to another and to international grain producers. NCBA would be opposed.

In a Farmer Owned Reserve (FOR) program, farmers are induced by government subsidies to place grain into storage until the price rises to a specific level. This program is deliberately designed to hold grain off the market by restricting supply, subsequently leading to higher prices. Farmers are paid storage by the government and receive the higher prices when their grain is released. FOR's may be good for farmers. However, livestock producers pay the resulting artificially inflated prices for grain not the government. This program also leads to quality degradation of grain as good quality grain is put into storage and poorer quality grain is taken out of storage. This proposal would amount to a transfer of income and risk from one sector of agriculture to another and NCBA would be opposed.

"Flex-Fallow" type programs also are common as an "option" to marketplace programs for some in the farming community. These programs create an incentive for producers to set aside a percentage of land by offering higher loan rates on grain that is produced from the land that stays in production. This concept has two likely results:

1. It could amount to a de facto set aside program that would restrict production, decrease grain supply and increase prices. If this result occurs, it would amount to a transfer of income and risk from one sector of agriculture to another and NCBA would be opposed.
2. Producers could choose to set aside a portion of their most "fragile" acres and then strive to increase production on the most productive acres to take advantage of the higher loan rates.

This concept only exacerbates the current surplus situation because higher loan rates create a tremendous incentive to over produce on highly productive land and take land out of production that may not be in production to begin with. NCBA will remain in opposition to programs that "set-aside" acreage and create artificial price signals.

Dairy Policy

The senior members of the committee are familiar with the challenges faced by the beef and dairy industry over the years. Nonetheless, for the benefit of the newer members of the committee I would like to touch on a few historical episodes. The NCBA and our predecessor organization, the NCA, has typically taken a hands off approach to dairy policy as it relates to the entire dairy pricing system. However, 6% to10% of dairy revenues comes from sales of cattle and calves for beef. Dairy cows make up nearly half of the total cow slaughter and can have a tremendous impact on the beef industry.

In 1986, the USDA mishandled a dairy buyout, or a dairy termination program (DTP) that was part of the 1985 farm bill. The buyout cost the government $1.8 billion in payments to entice dairy producers to exit the business for a minimum of five years. Of that total, $677 million were collected from assessments on dairy producers. An additional $400 million was allocated and spent to subsidize beef exports and other programs to help mitigate impacts of the DTP on the beef industry. This ill-conceived program flooded the beef market and in short was an unmitigated disaster to the beef industry. Prices for fed cattle declined nearly $6/cwt.during the first week as futures markets declined by maximum limit moves for three consecutive days then an additional $1/cwt. on the fourth day. Prices for fed cattle remained $5-$7/cwt. below previous year levels for at least 6 months after implementation of the program. Prices for calves and yearling cattle declined by $10 - $15/cwt. as lower prices for fed cattle and general

Unfortunately, we know that the needs of the livestock sector far exceed these planned increases. As we have stated in previous testimony on this topic, livestock and poultry producers face, or will soon face, costly environmental regulations as a result of state or federal law designed to protect water and air quality. In addition to state requirements, the regulations will come from the Clean Water Act TMDL program, the proposed CAFO permit requirements, and the Clean Air Act. The table below that summarizes the analysis the livestock and poultry industries have completed to define the conservation funding needed by livestock sectors and costs categories for operations with 50 animal units or more.

10 Year Costs, By Category and Species for operations with more than 50 animal units (in million dollars)

	Fed Cattle	Dairy Cattle	Other Cattle	Swine	Poultry	Total
Structural Measures	$346	$3,492	$1,321	$1,402	$813	$7,375
Structural Measures, Technical Assistance	$87	$873	$330	$351	$203	$1,844
CNMP Preparation	$42	$221	$142	$104	$84	$593
Ongoing Nutrient Mgmt, Soil and Manure Tests, etc.	$254	$297	$97	$306	$505	$1,459
Ongoing Nutrient Mgmt, Tech Assistance	$169	$172	$58	$184	$301	$884
Securing Additional Land for Spreading Manure	$8	$2	$0	$3	$33	$46
Total Cost	$906	$5,057	$1,948	$2,350	$1,939	$12,200

We commend you for the significant increases you have proposed to help meet this need. The above analysis leads us to respectfully request that the committee take full advantage of any opportunity that may exist to expand EQIP funding specifically for livestock and poultry assistance as close to $1.2 billion a year as possible.

There are several specific issues that we would like to address as you now prepare final legislative language for the conservation title of your farm bill. We have presented many of the following comments and positions in previous testimony before this committee and Mr. Lucas's subcommittee.

We continue to stress the importance of ensuring that all livestock and poultry producers are eligible for this assistance regardless of the size of their operations. We understand that the bill you will draft from your concept paper will not discriminate against livestock operations based on their size when determining EQIP assistance. We thank you for that, and know that there is ample public policy justification for this decision. The public wants greater environmental benefits and higher environmental performance from our operations, large and small, and we are anxious to provide these public goods. Family owned or operated livestock operations come in all sizes, and all of these will need assistance if they are to remain economically viable while providing the public with the environmental benefits they seek.

Consistent with providing equal access to EQIP dollars for all producers, NCBA believes that a payment limitations comparable in overall size to that used in row crops is far more appropriate. However, the payments should not be limited by year but by the needs of the overall EQIP contract. We believe a minimum of a $500,000 limitation per contract is needed for this work, and even that will be too low in many cases. We welcome the opportunity to work and cooperate with you as you finalize this provision in your bill.

NCBA feels that protecting water and air quality as it relates to livestock and poultry manure management must be national priorities for EQIP. We encourage your final bill to ensure the program has both of these among the top priorities. We also believe that while the installation of EQIP conservation practices can and will provide benefits to wildlife, that the provision of wildlife habitat should not be a purpose of EQIP.

In our view, the Wildlife Habitat Incentives Program (WHIP) is the best programmatic mechanism for helping producers practice wildlife conservation on working agricultural lands. We encourage you to remove wildlife as an explicit purpose for EQIP, and support your effort to substantially increase funds for WHIP to meet producer's needs for doing wildlife work.

Explicit provisions must be enacted that structure and support the joint effort that will be needed from federal and non-federal technical assistance providers to ensure that the financial assistance for EQIP and other conservation programs will achieve their intended purposes. We commend you for the $850 million over ten years that your concept paper has proposed for federal and non-federal technical assistance, and support inclusion of these funds in the final bill. We note that in addition to these funds, we continue to support the use of EQIP funds for the provision of technical assistance, as under current law.

Our cost analysis referenced earlier in this testimony incorporates technical assistance costs explicitly. We believe it is very important that this bill not adopt any limitation on the amount of technical assistance to be provided under EQIP that is arbitrary and otherwise not based on what it really costs to help producers design, install and manage conservation practices. Financial assistance is essential, but without full and qualified technical support, the financial assistance will fail.

NCBA does feel that particular attention must be paid in the legislative language to ensuring that the program fully involves private sector technical assistance providers who are ready to provide the technical assistance needed by USDA. A voucher system is one way that could be used to meet this need, but there are several others, and we are prepared to offer, immediately, detailed suggestions for how this can be done.

NCBA asks that your efforts address the issue of how EQIP will meet many of the nation's top conservation priorities that are not properly delineated on the basis of small geographic areas, like a watershed. The ability of the program to place emphasis on watershed-based assistance must be retained. But there is a substantial number of critical, high value, high priority conservation practices providing substantial and valuable environmental benefits that producers across broad parts of the country need assistance to implement. EQIP must place considerable and major emphasis on helping producers adopt these latter conservation practices that are not defined on the basis of a geographic area.

We also ask that your bill place close attention to the existing provisions that are adding considerable administrative burden with little associated environmental benefit. In particular, we believe EQIP must retain its emphasis on producing significant and valuable environmental benefits, but that it should do so without the impractical and impossible condition of truly "maximizing" such benefits. The term maximization implies being able to compare accurately and equitably tens of thousands of EQIP conservation practices being implemented under entirely different field conditions and often for very different conservation purposes. Maximization under these conditions is unfeasible and not an appropriate objective, and instead the program should emphasize securing substantial environmental benefits per dollar expended.

We also believe that changes are needed to make clear that an EQIP plan, while necessary to secure a contract for EQIP payments, is not needed to apply or even be accepted into the program. The program should have proper procedures to govern application and acceptance into the program, but an EQIP plan is far too detailed and costly to be required for this purpose. We also believe that the final bill must make clear that an EQIP plan can be designed to address only one conservation objective and involve only one eligible practice, and that the contracts can be for one year to ten years, depending on the conservation practices involved.

We believe that with the changes you propose that EQIP can go a long way toward achieving the significant environmental goals that the program is designed for. Your proposal indicates that EQIP funds will be devoted to soil, water and wildlife programs. In addition to our request that the wildlife focus be shifted to the WHIP program, we also ask that EQIP funds be made available to address air quality needs. The livestock and poultry industry will increasingly be facing regulatory burdens as agriculture air issues become more prominent.

Mr. Chairman, we also note that your proposal would increase the acreage cap of the Conservation Reserve Program (CRP) to 40 million acres. We can only support this increase as long as the final legislative language makes it clear that enrollment of these new acres is to be guided by the goal of keeping productive lands working. When an entire farm field is enrolled into the CRP, agricultural use of the field is lost for the term of the contract. In our view, this means that that emphasis must be placed on enrolling buffers and portions of field. The number of whole fields enrolled in the CRP program should be substantially limited. We are prepared to work with you to define the appropriate purposes for these new acres. Any new whole field enrollment in the CRP would be viewed as a "set-aside" of acres and that would not be consistent with the policy of our members. NCBA cannot be supportive of whole field idling of land under the name of CRP or any other program.

NCBA will likely support some provisions in the next farm bill to allow managed grazing on land enrolled in continuous sign-up CRP and CREP. The debate about allowing managed grazing – as part of a Natural Resources Conservation Service (NRCS) required CRP maintenance program – on traditional CRP is continuing within our association and should be resolved at NCBA's summer meeting in early August. These management practices, including grazing, could have tangible benefits for the public due to improvements of environmental quality including limiting invasive plant species and improving wildlife habitat and water quality.

We understand that the draft concept paper has focused on programmatic changes for mandatory spending programs only, leaving us unsure how other important conservation programs will be addressed. We offer these final points and ask that you give these programs every consideration possible in your final legislative proposal.

Mr. Chairman, as you know, the NCBA represents that segment of agriculture that owns and manages our nation's private grazing lands. These grazing lands contain a complex set of interactions among soil, water, air, plants and animals. They contribute significantly to the quality and quantity of water available for all of the many land uses, and they constitute the most extensive wildlife habitat in the US. Our next generation farm bill must continue to recognize the contributions these grazing lands make to a healthy environment by providing financial and technical support for grazing lands and grasslands conservation programs.

Specifically, the Grazing Lands Conservation Initiative (GLCI) has been a very successful and productive educational and technical assistance program to conserve and enhance private grazing land resources. The past authorization level of $60,000,000 must be reauthorized to ensure that benefits continue to be realized through this program.

The NCBA also has supported proposals to assist ranchers in restoring and conserving grasslands. There currently are no federal programs that conserve grassland, ranch land, or other land with comparable high resource value, other than wetlands, on a national scale. Legislation has been introduced that creates a Grasslands Reserve Program to provide a mechanism for ensuring continuation of economic activity while conserving these high resource value lands. We welcome any opportunity to work with you to design a program that meets our industry needs and is compatible with your goals.

Disaster Programs

The NCBA supports efforts to assist producers when Mother Nature, or some force outside of their control, deals a blow. NCBA will continue to work with the Risk Management Agency and its contractors to develop programs and policies that work for cattle producers. NCBA supports making the Livestock Assistance Program a regular program with funding available to the Secretary for use when producers need the assistance. One priority for NCBA is to prevent unintended consequences of any of these programs. We will work to ensure that there are proper incentives for land stewardship and animal well being.

Agricultural Research, Surveillance, Monitoring and Foreign Animal Disease

The Committee is well aware of recent issues facing the beef and livestock industries. Bovine Spongiform Encepalopathy (BSE) and Foot and Mouth Disease (FMD) have been on the minds of beef producers and on the televisions and in the magazines of American consumers. In the middle of this onslaught though there are some interesting statistics. A consumer survey conducted on behalf of the beef industry indicates that consumer confidence in beef's safety has actually increased despite the fact that 81% of consumers have heard of BSE since the fourth quarter of 2000. The NCBA believes that consumer confidence in our beef system is not an accident. It is the result of industry and government efforts to insist on science-based measures and decisions to keep our industry free from disease and our consumers confident in the wholesomeness of our product.

The US must set the world standard for our research, inspection, surveillance and food safety monitoring system to instill confidence in our customers, both domestically and abroad. NCBA thanks the Committee for the increase in research funding. This truly is an investment in our future and will help us to maintain and improve upon the track record we have shown in the past months.

International Trade

NCBA has been and continues to be a strong believer in international trade. We support aggressive negotiating positions to open markets and to remove unfair trade barriers to our products. We thank this committee for proposing doubling funding to $180 million for the Market Access Program that helps expand opportunities for US beef.

We urge the Committee to consider increasing the amount to our original request of $200 million for MAP funding and $43.3 million for the Cooperator Program to augment long-term market development efforts for US agricultural products. The amount that we are requesting at full funding would total $2.43 billion over 10 years -- less than 1.5 percent of the total $168 billion allocation for farm income supplements. International market development for US commodities is critical for moving US agricultural products through commercial channels and breaking the cycle of increased government subsidies for US agricultural producers.

NCBA supports Congressional and regulatory action to address unfair international trade barriers that hinder the export of US beef. We encourage the Committee's continued strong and vigilant oversight of the enforcement of any trade pact to which American agriculture is a party. Accordingly, we appreciate and commend Chairman Combest and Ranking Member Stenholm for their efforts in the passage of Carousel Retaliation.

We ask the Committee to urge the administration to set a date-certain for either reaching a negotiated meaningful compensation package to resolve the long-running battle to regain access for US beef in the European market or implementing Carousel Retaliation to deal with current European non-compliance. Related to the European beef ban and the Carousel Retaliation issue, the NCBA supports the "Trade Injury Compensation Act" that would allow any funds collected from the implementation of retaliatory duties to be used by the beef industry for consumer education and market development in the international marketplace.

Competition

NCBA also supports the critical role of government in ensuring a competitive market through strong oversight. This includes the role of taking the necessary enforcement actions when situations involve illegal activities such as collusion, antitrust, and price-fixing. However, government intervention must not inhibit producers' ability to take advantage of new marketing opportunities and strategies geared toward capturing a larger share of consumers' spending for food. In short, the government's role should be to ensure that private enterprise in marketing and risk management determines a producer's sustainability and survival.

Country-Of-Origin Labeling

The NCBA supports legislative and regulatory action that would rescind the use of USDA quality grades on imported beef carcasses and on cattle imported for immediate slaughter. We appreciate the efforts of many Members of this Committee for keeping pressure on USDA to bring this issue to a resolution. The NCBA continues to support mandatory country-of-origin labeling for all imported beef.

We have submitted to the USDA a proposal for a voluntary certification program that would allow a "Beef: Made in the USA" label on beef. We continue to work with USDA and our industry partners for swift implementation of this proposal.

Interstate Shipment of State-Inspected Meat

NCBA supports legislation that would allow meat inspected by state departments of agriculture to be shipped across state lines. This would create additional competition in the packing sector and create marketing opportunities for family-owned packing companies that are currently limited to simply marketing in state. Working with the industry, NCBA made significant progress on this issue in the 106^{th} Congress. We will continue to negotiate and seek consensus legislation that will make interstate shipment of state-inspected meat a reality.

Dealer Trust

The NCBA supports the creation of a "Dealer Trust" to protect the financial stability of cattle producers when the buyers who purchase livestock file bankruptcy. This legislation would create a trust to provide payment to the sellers of cattle if the buyer becomes unable to pay due to bankruptcy or other impediment to payment.

Conclusion

Mr. Chairman, many of the areas in which NCBA has significant interest are beyond the scope of today's hearing. NCBA policy is directed toward minimizing direct government involvement in agriculture. To that end, NCBA will oppose any policy that favors one producer or commodity over another. Farm policy that guarantees a profit or restricts the operation of the marketplace should be discouraged. NCBA does not support policy that sets prices, underwrites inefficient production or manipulates domestic supply and demand.

A tremendous amount of work has been accomplished to get us to this point in the discussion and I know that an aggressive schedule has been set for the next few weeks. With that in mind, Mr. Chairman, on behalf of the beef industry I thank you for this opportunity to testify before the Committee and I will be happy to answer any questions.